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State of Utah

DEPARTMENT OF NATURAL RESOURCES

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Executive Director

Division of Oil, Gas and Mining

JOHN R. BAZA
Division Director

Internal
M/049/0062

May 25, 2011

TO: John Baza, Director *Noted: RB 6/6/11*

THROUGH: Dana Dean, Associate Director of Mining *DD*

FROM: Paul B. Baker, Mineral Program Manager *PB*

SUBJECT: South Standard Mining Company Certificate of Deposit

The letter attached to this memorandum redeems a certificate of deposit originally established by South Standard Mining Company but in the name of the Division of Oil, Gas and Mining. The purpose of this memorandum is to explain some of the history and reasons for cashing the CD. After the CD is cashed, the Division will put the money in an account through the State Treasurer for Chief Consolidated Minerals.

In 2005, Lynn Kunzler issued a series of violations to Chief Gold Mines which at the time was in bankruptcy proceedings. Failure to Abate Cessation Orders were eventually issued and the operator appealed the matter to the Board. The Board's order, in summary, required the operator to update the Notices of Intention (NOIs) for the 3 mines subject to the enforcement action and to assure adequate surety was posted.

In 2008, Chief Consolidated Mining Company (Chief) acquired these operations, and consolidated the NOIs into a single plan. By August of 2009, the consolidated NOI was ready for the Division's approval with the exception of the surety. At that time, all of the previous surety instruments had been converted to a cash surety with the exception of this one CD, originally issued by First Interstate Bank which was later acquired by Wells Fargo.

Chief has tried numerous times to have this CD retitled to meet our current CD requirements and has been blocked at every turn, apparently because they are not South Standard Mining (even though they acquired the South Standard assets). In turn, Division staff has met equally frustrating cooperation from the bank (it took many months for them to even admit to the Division that the CD existed) because we were not the mining company. Most recently, the bank has used the argument that they can only deal with Jim Carter, because he was the one that signed the original CD.

The Division has now received concurrence from Chief to cash the CD and deposit the funds in their cash bond. This action will allow the Division to close several tasks, including the Board order that Chief properly permit and bond the current mining operations.

Thank you for your attention to this matter. Please contact Lynn Kunzler if you have questions about this memo.

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